FINANCE FINLAND

21 MAY 2025

PUBLICATIONS AND STATISTICS

FINNISH BANKING 2024

FINNISH BANKING 2024

Overview of the Finnish banking sector and the key changes in its operating environment in 2024

CONTENTS

FINNISH BANKING 2024

INTRODUCTION

The Finnish banking 2024 report is an overview of the Finnish banking sector and the key changes in its operating environment in 2024. Finance Finland publishes the banking report annually, with a focus on current topics affecting the sector that year.

The report covers two main themes: developments in the operating environment, and developments in the banking sector.

The purpose of the report is to increase knowledge of the factors that affect the banking sector and to present a summary of the state of the banking sector. The report also includes an overview of economic developments, topical monetary policy measures, the regulatory and supervisory environments and developments in the banking sector.

The report was written by Finance Finland's adviser Jussi Kettunen.

GENERAL OPERATING ENVIRONMENT

In 2024, Russia pressed on with its war of aggression against Ukraine. The effects of the war continued to ripple across Europe, but people seemed to better tolerate the uncertainty. Partly because of China's support for Russia, relations between China and other key economic areas remained tense. Inflation calmed down from the previous year, but the rise in the price of energy, raw materials and foods caused consumer inflation to stay above the target level both globally and in Finland. Persistent inflation and very high interest rates eroded households' purchasing power and slowed down the housing market in Finland and in other countries. At the same time, the general uncertainty reduced investment demand.

The persistent inflation reflected on interest rates and interest rate expectations globally. In the euro area, the consumer price inflation record of 10.7% reached in October 2022 remained intact, but inflation was nevertheless fairly high in the early part of the year, dampening expectations for lighter monetary policy measures. However, inflation pressures eased off towards the end of the year, and the European Central Bank (ECB) lowered its key interest rates a total of four times in 2024.[1]

In addition to Russia's war of aggression, other topics that featured heavily during the year included climate change and its effects and mitigation. From a climate perspective, 2024 was indeed the hottest year on record. The EU's aim to make Europe the world's first climate-neutral continent by 2050 and Finland's goal to become a carbon-neutral country by 2035 set certain expectations both for new regulation and the financial market's role in achieving this. The banking sector will play a significant role in climate transition as finance will be increasingly redirected towards investments that promote carbon neutrality. Financing

1 https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

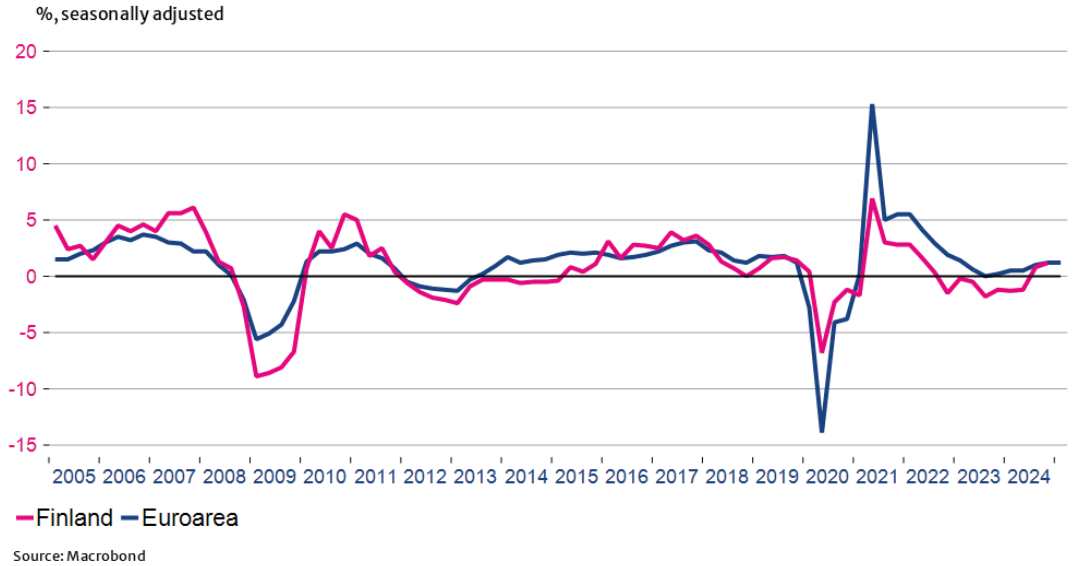


Figure 1: Annual change of GDP in Finland and the euro area (%)

needs and the role of the financial sector in the green transition are discussed in more detail in the final report of the national working group on financing the green transition.[2]

FINNISH ECONOMY

According to Statistics Finland's revised preliminary data, the volume of Finland's GDP fell by 0.1% in 2024.[3] The volume of construction dropped significantly from the year before, and the value added in manufacturing also contracted slightly.

The development of wholesale and retail trade was subdued throughout the year, but in other services, value added increased slightly. General government services contracted in 2024.[4]

In the latter part of the year, falling interest and inflation rates gave the economy a boost. As demand remained muted in the global economy, new orders in manufacturing were also slow to come in. Economic sanctions imposed on Russia and Belarus continued to reflect negatively on Finnish companies as well, although they had already largely become the new normal.

One of the few positive sides to the upended geopolitical situation is that it has helped accelerate the green transition. The transition away from Russian energy and the commitment to further reduce greenhouse gas emissions has boosted investments in renewable energy. In 2024, Finland's wind power capacity increased by 20%, making it the second busiest wind power construction year in history. The size of the investments was considerable, standing at about €1.8 billion.[5]

Finland has also made significant investments in solar electricity production in recent years. At the end of 2024, Finland's total industrial solar power capacity was just over 120 megawatts, nearly half of which – just under 60 megawatts – was commissioned in 2024.[6]

According to Statistics Finland's Labour Force Survey, the average number of employed persons aged 15 to 74 was 2,602,000 and that of unemployed persons was 238,000 in 2024. There were 25,000 fewer employed and 34,000 more unemployed persons than in the year before. The employment rate of persons aged 20 to 64 was 76.7% in 2024, which was 1.2 percentage points lower than in 2023. The

2 https://julkaisut.valtioneuvosto.fi/handle/10024/164654
3 https://stat.fi/en/publication/cm1aquw8709du06w2yx3fs6oo
4 https://stat.fi/en/publication/cm1arbrzi0djv07uspiafriob
5 https://suomenuusiutuvat.fi/en/wind-power-year-2024-finlands-wind-power-capacity-grew-by-20/
6 https://suomenuusiutuvat.fi/en/solar-power-year-2024-rapid-growth-and-bright-forecasts/

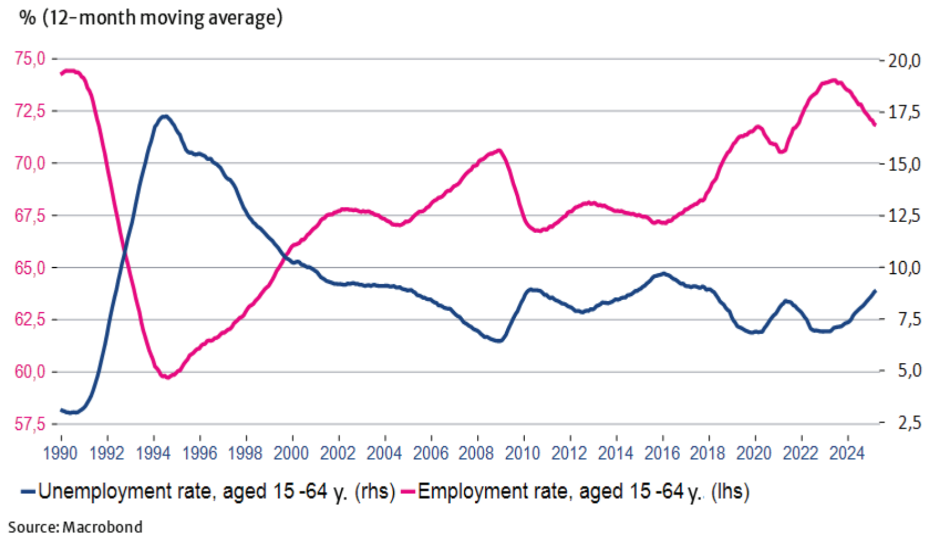


Figure 2: Employment in Finland

unemployment rate of people aged 15 to 74 stood at 8.4%, which was 1.2 percentage points higher than in 2023.[7]

Households

Household indebtedness and related legislative measures have been an active topic of conversation in Finland for years now. It has been estimated that in terms of financial stability, the stability concerns related to household indebtedness are more often caused indirectly through risks taking place in economic development rather than directly through the credit risks of residential mortgage loans. Rising interest rates may allow households less financial latitude and thus curb consumer demand if the level of debt is high. High interest rates have caused concern about households' ability to cope with higher loan servicing costs.

According to Statistics Finland, households' indebtedness ratio – the ratio of their loan debts to their total disposable income – continued to fall throughout the year.[8] This is the result of both the growth of income and the scarcity of borrowing. Because of the high interest rates, Finns have been less eager to take out new loans than before, focusing instead on repaying their existing loans. According to preliminary data, households' indebtedness ratio was expected to stand at 123% at the end of 2024.[9]

At the same time as households' indebtedness ratio has fallen, households have continued to increase their assets. By the end of 2024, more than 390,000 people had opened an equity savings account, which were only recently introduced in Finland.[10] Saving in investment funds has also attracted increasing interest among Finns in recent years. The combined assets of Finnish investment funds totalled about €184 billion at the end of 2024.[11]

The growth in households' deposits from the pandemic years turned down in 2023, only to take an upward turn again in 2024 and accumulate a growth of €1.5 billion. At the end of 2024, the stock of Finnish households' deposits totalled €110.2 billion.[12] Overnight deposits accounted for €67.2 billion, deposits with an agreed maturity for €15.0 billion and

7 https://stat.fi/en/publication/cm0z8kztk0y1o07ul-qh34y1ok
8 https://stat.fi/en/publication/cm1kfyh9e8nh-k07vw3l6vpmf3

9 https://vm.fi/en/economic-survey-winter-2024#/
10 https://www.euroclear.com/finland/fi/statistics/equity-savings-accounts.html (in Finnish)
11 https://www.finanssiala.fi/uutiset/sijoitusrahastot-hyviin-tuottoihin-2024/ (in Finnish)
12 https://www.suomenpankki.fi/en/statistics/statistical-news/mfi-balance-sheet/2024/interest-rates-on-new-consumer-credit-lower/?epslanguage=en

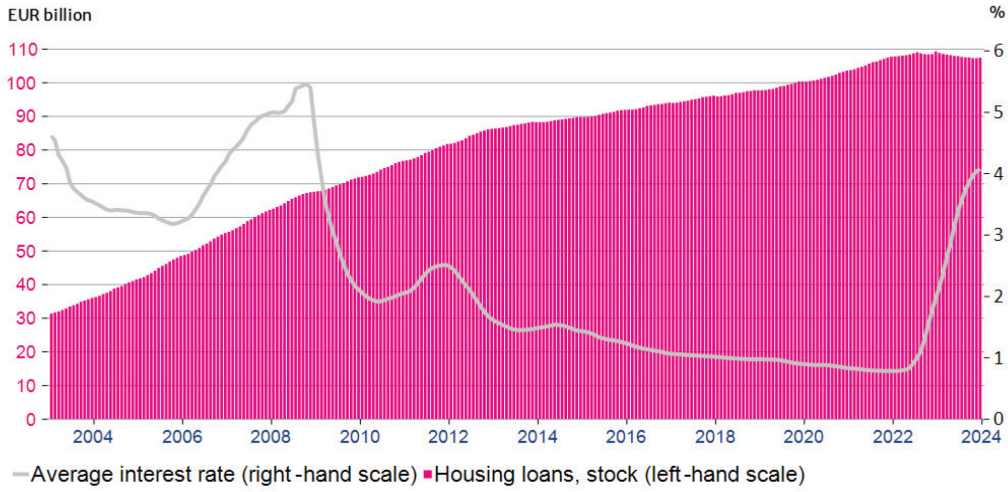


Figure 3: Households' housing loan stock and average interest rate

investment deposits for €28.0 billion of the total deposit stock. As the level of market interest rates has risen, the interest rate differentials between different types of deposit accounts have widened.

Housing market

Towards the end of 2022, Finland's long-term trend of active construction took a downward turn, which only deepened in 2023 due to a rapid rise in both construction costs and interest rates. The volume of new construction dropped to about 20,000 building starts in 2023.

The downward turn deepened even further in 2024, which saw fewer than 20,000 building starts. With privately funded housing production contracting, state-subsidised housing production made up almost 50% of all housing construction.[13]

According to the VTT Technical Research Centre of Finland, the average long-term housing production need is 31,000–35,000 dwellings per year.[14]

The construction sector is susceptible to economic fluctuations, and especially housing construction slows down quickly when demand is low. To offset the downturn in private housing construction, the government boosted state-subsidised housing production by temporarily increasing its interest subsidy loan authorisations to affordable social housing production to €2.25 billion. According to the government, this enabled more than 10,000 new building starts in state-subsidised housing.[15]

The reason for accelerating state-subsidised housing production was to even out cyclical fluctuation and increase employment given the construction sector's role as a major employer.

The real estate sector's stability is important for banks, because in June 2024, 59% of all household and corporate loans granted by Finnish banks were housing loans and other mortgage-backed loans.[16]

13 https://www.varke.fi/fi/document/valtion-tukema-asuntotuotanto-2024 (in Finnish)
14 https://rt.fi/tietoa-alasta/tilastot-ja-suhdanteet/asuntotuotantotarve-2045-selvitys/ (in Finnish)
15 https://www.varke.fi/fi/ajankohtaista/aralle-lisaa-korkotukivaltuutta-ja-asumisoikeusasuntojen-rakentamiselle-jatkoaikaa (in Finnish
16 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2025/significant-real-estate-risks-in-the-finnish-financial-sector--mitigated-by-strong-buffers/

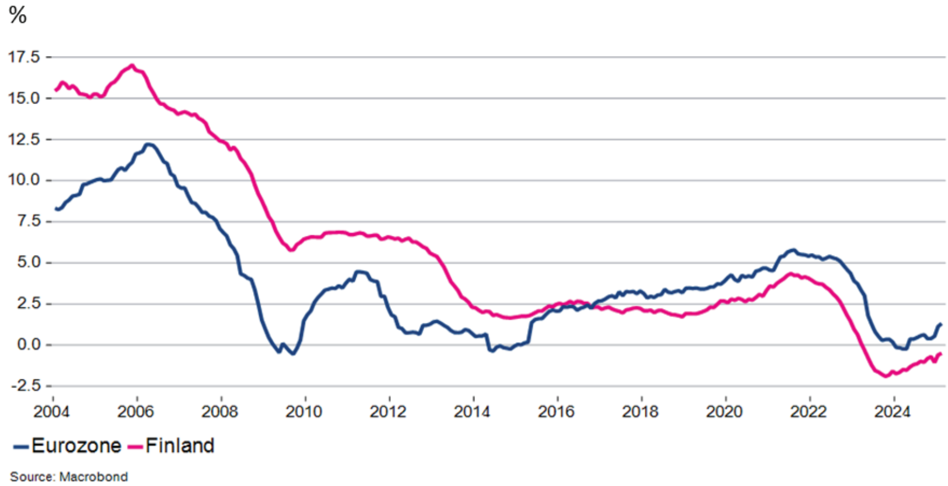


Figure 4: Annual growth rate of the housing loan stock in Finland and the euro area

Housing loan market

The banking sector has continued to grant residential mortgages to households as usual during both the pandemic and the war, which has been extremely important in terms of labour mobility and the increasing popularity of remote work, for example.

In 2024, the housing market was on standby. The boost given by the pandemic faded in 2022 as heating energy prices and interest rates shot up. The housing market continued to slow down and prices to come down in 2023. The weak development continued in the first half of 2024, but the second half showed signs of the housing market beginning to stabilise: prices no longer went down, and sales started to go up. As a whole, however, the market situation remained fragile.[17]

According to Finance Finland's banking barometer, consumers' confidence in their own finances started rising towards the end of the year. Plans to buy a home also returned to their regular long-term level.[18]

In line with the housing market development, the demand for housing loans remained subdued over the year and the housing loan stock contracted. At the end of December, the stock of housing loans stood at €105.8 billion (€107.5 billion in 2023).[19]

Investment property loans (e.g. buy-to-let) accounted for €8.8 billion of the housing loan stock. When granting housing loans, banks value the mortgage lending value clearly under the market value of the time of the credit granting. This protects them against credit losses in an environment of decreasing property prices.

Almost the entire housing loan stock is tied to Euribor rates with a maturity of 12 months or less, which means the loan interest rates of most loans are updated at least once a year.[20] Because of this, lower interest rates carried over quickly to the housing loan stock in 2024.

At the end of 2024, the average interest rate was 3.56% in housing loans (4.08% in 2023) and 3.71% in investment property loans (4.3% in 2023).[21]

Finland's high proportion of variable rate housing loans means that changes in the European Central Bank's monetary policy have hit Finland faster and harder than many

17 https://www.suomenpankki.fi/en/statistics/data-and-charts/mfi-balance-sheet/charts/rati-kuviot-en/asuntolainat_uudet_sopimukset_chrt_en/
18 https://www.finanssiala.fi/julkaisut/pankkibarometri-iv-2024/ (in Finnish)
19 https://www.suomenpankki.fi/en/statistics/statistical-news/mfi-balance-sheet/2024/interest-rates-on-new-consumer-credit-lower/?epslanguage=en
20 https://www.bofbulletin.fi/en/2023/1/rise-in-interest-rates-is-testing-the-resilience-of-borrowers-investors-and-the-financial-system/
21 https://www.suomenpankki.fi/en/statistics/statistical-news/mfi-balance-sheet/2024/interest-rates-on-new-consumer-credit-lower/?epslanguage=en

other euro area countries. On the other hand, earlier when market rates were zero or even negative, Finland's housing loan interest rates were among the lowest in the euro area, with the gap to other countries reaching several percentage points at best.[22]

At the end of December 2024, the stock of loans to housing corporations stood at €45.1 billion.[23] Some of the housing corporation loan volume is held by households, some by housing investment funds and other housing investors, and some by companies. In statistics, housing corporation loans are included in the corporate loan portfolio.

SUPERVISORY MEASURES

THE ECB'S MONETARY POLICY

The European Central Bank's (ECB) decisions were followed with keen interest throughout the year, and debate was sparked especially by the ECB's stance and reaction to the inflation that accelerated in 2022 and 2023.

The ECB started to tighten its monetary policy and hike its key interest rates in the summer of 2022. After a long period of exceptionally low rates, interest rates rose quickly and sharply.[24] In the euro area, Euribor shot up by about 4 percentage points in the course of one year.

In early 2024, the ECB's Governing Council estimated that the past rate increases were being transmitted forcefully to euro area financing and monetary conditions. Despite this, the first interest rate cut did not take place until early June, when the ECB's Governing Council decided that based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it was appropriate to moderate the degree of monetary policy restriction after nine months of holding rates steady. The Governing Council ultimately lowered the key interest rates four time in 2024. At the end of the year, the deposit facility rate stood at 3%.

In addition to lowering the key interest rates, the Governing Council also decided in June that over the second half of the year, it will reduce the pandemic emergency purchase programme (PEPP) portfolio by €7.5 billion per month on average.[25]

The Governing Council also announced several times over the year that the asset purchase programme (APP) portfolio is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

Targeted longer-term refinancing operations (TLTROs)

The third series of targeted longer-term refinancing operations (TLTRO III) undertaken during the pandemic saw the most affordable financing conditions in the history of the Eurosystem – never before had the Eurosystem granted credit to banks at a rate lower than the ECB's deposit facility rate.[26] At the end of 2022, the Finnish banking sector had acquired some €30 billion through the programme. At the end of the 2023, the figure stood at only about €3.5 billion,[27] and at the end of 2024, it had been paid back in full.[28]

In October 2022, the Governing Council decided to recalibrate the conditions of the TLTRO III and to offer banks additional voluntary early repayment dates. The recalibration removed deterrents to early voluntary repayment of outstanding TLTRO III funds.[29]

22 https://www.op-media.fi/puheenvuorot/pitaisiko-suomessa-siirtya-kiinteakorkoisiin-asuntolainoihin/ (in Finnish)
23 https://www.suomenpankki.fi/en/statistics/data-and-charts/mfi-balance-sheet/charts/rati-kuviot-en/Lainat_asuntoyhteisoille_chrt_en/
24 https://www.suomenpankki.fi/en/statistics/data-and-charts/interest-rates/charts/korot_kuviot/euribor_ekpohj_kk_chrt_en/
25 https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.mp240606~2148ecdb3c.en.html
26 https://www.eurojatalous.fi/fi/blogit/2021/pankit-nostaneet-ennatyksellisen-maaran-edullisia-kohdennettuja-luottoja/ (in Finnish)
27 https://data.ecb.europa.eu/data/datasets/ILM/ILM.M.FI.N.A050200.U2.EUR
28 https://www.ecb.europa.eu/mopo/implement/omo/pdf/TLTRO3-calendar-2021.en.pdf
29 https://www.suomenpankki.fi/en/news-and-topical/press-releases-and-news/news/2022/ecb-monetary-policy-decisions2/?epslanguage=en

REGULATORY ENVIRONMENT

Finland's new government started its term in late June 2023. Prime Minister Petteri Orpo's government programme states that the government will draw up a growth strategy for the financial sector, which will include conducting a comprehensive assessment of financial market regulation.[30] The preparations dragged on until February 2024, when the Ministry of Finance appointed a working group to work on the growth strategy.[31] The working group's term ends on 31 May 2025.

The regulatory environment had another eventful year. In Finland, the assessment of the need to amend legislation on credit institutions was a hot topic in 2024. The Ministry of Finance's consultation on the topic included basic banking services and amendments to general legislation on credit institutions.[32] In March 2024, the Ministry published an assessment report on the matter.[33] In October, it established a working group to prepare the legislative proposals on banking services. The working group's term ends on 31 December 2025.

The widely discussed Basel III reform on banks' capital requirement regulations was active in the first half of the year. The European Commission published its proposal for the implementation of the final Basel III standards on 27 October 2021. The proposal entailed broad amendments to the EU Capital Requirements Regulation (CRR) and the Credit Requirements Directive (CRD). The legal texts were published in the Official Journal of the European Union in June 2024, and the new CRR rules started applying on 1 January 2025.[34]

30 https://valtioneuvosto.fi/en/governments/government-programme#/
31 https://vm.fi/-/tyoryhma-laatii-finanssialan-kasvustrategian (in Finnish)
32 https://www.finanssiala.fi/wp-content/uploads/2023/05/fa-muistio-08052023-hallitusneuvottelut-vaali-ja-kampanjatilit-.pdf (in Finnish)
33 https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/165469/VM_2024_14.pdf?sequence=1&isAllowed=y (in Finnish, includes an English abstract)
34 https://finance.ec.europa.eu/news/latest-updates-banking-package-2023-12-14_en

The purpose of the Basel III reform is to improve risk calculation, increase comparability between banks and finalise the post-crisis regulation framework on banks' capital adequacy and liquidity. Finance Finland has criticised the reform for failing to take national specificities sufficiently into account in the regulatory proposals. Finance Finland has also highlighted the importance of keeping banks' capital requirement increases as low as possible to prevent the reform from hampering their lending capacity.

In August 2024, the Ministry of Finance appointed a working group to prepare the national implementation of the Basel III standards. The working group is tasked with preparing a proposal by the end of 2025 that includes the legislative acts to transpose the provisions of the amended CRD (CRD6) and its previous versions as necessary and the legislative action resulting from the amendments to the CRR (CRR3). The proposal should also include acts to bring national legislation on credit institutions up to date, including the Act on Credit Institutions, the Act on the Amalgamation of Deposit Banks, the Act on Mortgage Credit Banks and Covered Bonds, the Savings Bank Act, the Act on Mortgage Societies, and the Act on the Financial Supervisory Authority.

On 18 April 2023, the European Commission adopted an extensive legislative proposal on the reform of the bank crisis management and deposit insurance (CMDI) framework, which would utilise national deposit guarantee schemes as a source of funding. It was criticised by various parties, including Finance Finland, because it was considered to undermine investor bail-in and pave the way for a European Deposit Insurance Scheme (EDIS).[35] Debate about the proposal continued in 2024, also in the Finnish Parliament.

Finance Finland has designed and also submitted to the Commission an alternative model to implement a common deposit guarantee scheme in line with the 'no bail-out'

35 https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2250

principle, should one become necessary.[36] Finance Finland has systematically been of the opinion that investment risk must be borne by investors, not by depositors – this must be the guiding principle if EDIS is implemented.

Regulation on housing finance was also amended. Changes to the Home Saver's Bonus scheme (ASP scheme) took force in April 2024. The maximum amounts of ASP loans increased by EUR 15,000–25,000 on 1 April depending on the municipality where the home to be purchased is located. In addition to raising the maximum amounts of the loan, the Ministry of the Environment continued to plan a comprehensive reform of ASP legislation. The aim of the changes to the ASP savings and subsidy scheme is to improve the possibilities for people in different life situations to purchase a home.[37]

SUPERVISORY ENVIRONMENT

Of Finnish credit institutions, Nordea, OP Financial Group and Municipality Finance are under the direct supervision of the European Central Bank (ECB). The ECB also supervises the Finnish branch of Danske Bank. Other banks are supervised by the Finnish Financial Supervisory Authority (FIN-FSA) as part of the Banking Union's joint banking supervision.

The FIN-FSA Board assesses on a quarterly basis the short- and long-term risks to the stability of Finland's financial system. If necessary, the Board may tighten or relax its macroprudential instruments for promoting stability. Before each decision, Finance Finland submits to the FIN-FSA Board its own assessment of the macroprudential situation and the macroprudential policy measures required by it.

The FIN-FSA Board also decides on a quarterly basis the level of the countercyclical capital buffer (CCyB) and the level of the maximum loan-to-collateral (LTC) ratio for housing loans (loan cap). The levels of additional capital requirements for nationally systemically important institutions (O-SII buffers) are reviewed at least annually and the level of the systemic risk buffer (SyRB) at least every second year.

In its first macroprudential decision of 2024, the FIN-FSA Board decided to keep the housing loan cap and the countercyclical capital buffer requirement for banks unchanged. According to the Board, risk indicators did not point to a significant increase in the stability risks associated with total lending.[38]

In its opinion concerning the FIN-FSA Director General's proposal on the application of macroprudential instruments, the Bank of Finland stated that there is good reason to begin a legislative process for enabling a so-called positive neutral CCyB requirement. The FIN-FSA Board shared the Bank of Finland's view and noted that the European Commission, in its report on the review of the macroprudential framework published in January, emphasises the need to increase the use of capital buffers which can be released on the basis of cyclical conditions.

The FIN-FSA Board published its second macroprudential decision of the year in late June. The Board decided to keep the loan cap at its standard level of 95% for first-home loans and 90% for residential mortgage loans other than first-home loans. The Board also decided to maintain the countercyclical capital buffer (CCyB) requirement for banks at 0.0%.[39]

In light of the cyclical position, Finance Finland considered the Board's decision to keep the loan cap unchanged justified. While it was good to keep the loan cap at its standard level, Finance Finland considered the macroprudential policy stance still too tight considering the cyclical position. The stance should be considered as a

36 https://www.finanssiala.fi/en/news/as-deposit-guarantee-and-bank-resolution-are-being-developed-bail-in-must-not-be-forgotten/
37 https://www.valtiokonttori.fi/en/uutinen/maximum-amounts-of-asp-loans-to-increase-on-1-april-2024/
38 https://www.finanssivalvonta.fi/contentassets/5eeb3ab8ff5e41319a8de1180dd28081/mv_27032024/johtokunnan-paatos-q1-2024--eng.pdf
39 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2024/macroprudential-decision-housing-loan-cap-and-capital-buffer-requirements-for-banks-remain-unchanged/

whole, taking into account all the elements that elevate banks' capital requirements.

In 2023, the FIN-FSA Board decided to impose a requirement on credit institutions to maintain a systemic risk buffer (SyRB) amounting to 1.0% as of 1 April 2024.[40] The justifications and timing of the decision gave rise to much debate.

Finance Finland reminded the FIN-FSA of its responsibility to explain in detail the risks on which it bases the decision to impose the SyRB, to assess the magnitude of each of the identified risks and to derive the buffer requirement transparently from this so that the conditions for imposing the SyRB can be repeated to ensure consistent regulation, predictable decisions and fairness. Later in its statement, Finance Finland asked the Parliament's Commerce Committee to call for the FIN-FSA to further improve the justifications for its macroprudential decisions in order to meet the requirements the Commerce Committee has required in its statement on the interpretation of the law.

The FIN-FSA Board published its third macroprudential decision at the end of September and decided to keep the loan cap unchanged. The countercyclical capital buffer (CCyB) requirement for banks remained at zero. In addition, the Board decided to approve the application of the Danish sector-specific systemic risk buffer requirement to Finnish credit institutions' real estate company exposures in Denmark.[41]

In its fourth and final macroprudential decision of the year, the FIN-FSA Board again decided to keep the loan cap at its standard level and the countercyclical capital buffer (CCyB) requirement for banks at zero.[42] Finance Finland considered this a good decision that helped support the budding recovery of the housing market and economy.[43]

In supervision, the FIN-FSA published a thematic review concerning the valuation practices for the real estate sector and the housing company loans of banks under direct FIN-FSA supervision.[44]

According to the FIN-FSA, the supervision of the increasingly digital financial sector and the integration of climate change considerations into supervision are matters that reflect both general social developments and focus areas in European supervision. In such supervision, it is important to treat different organisations equally and take into account their riskiness and the principle of proportionality.

The Financial Intelligence Unit and suspicious transaction reports

The Finnish Financial Intelligence Unit receives reports regarding suspicious transactions and suspected terrorist financing from parties subject to the reporting obligation under the Act on Preventing Money Laundering and Terrorist Financing. Some of the reports are transaction-based mass deliveries that are based on the automatic reporting practices of certain obliged entities. Mass reports are typically based on a certain maximum threshold, meaning that all transactions that exceed the maximum threshold are reported to the Financial Intelligence Unit.

According to the Financial Intelligence Unit's annual report, the number of suspicious transaction reports made by banks reached

40 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/macro-prudential-decision-systemic-risk-buffer-set-for-banks-loan-cap-remains-unchanged/

41 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2024/macroprudential-decision-housing-loan-cap-and-countercyclical-capital-buffer-requirement-for-banks-remain-unchanged2/

42 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2024/macroprudential-decision-no-changes-to-macroprudential-instruments--both-the-housing-loan-cap-and-countercyclical-capital-buffer-requirement-for-banks-to-remain-unchanged/

43 https://www.finanssiala.fi/uutiset/fiva-pitaa-pankkien-asuntolainakaton-ja-muuttuvan-lisapaaomavaatimuksen-ennallaan-paatos-tukee-asuntomarkkinoiden-ja-talouden-orastavaa-elpymista/ (in Finnish)

44 https://www.finanssivalvonta.fi/en/publications-and-press-releases/supervision-releases/2024/clear-shortcomings-in-valuation-practices-for-real-estate-collateral-and-credit-risk-management-for-housing-company-loans/

27,610 in 2024, increasing by almost 40% from the previous year (19,847 reports in 2023).[45] Only a fraction of the reports lead to preliminary investigation or charges.[46]

Financial sector companies spend over €100 million every year to prevent money laundering. Money laundering is the attempt to mask the origins of illegal income by passing it through banks. In Finance Finland's view, the prevention of money laundering and terrorist financing would benefit from Europe-wide harmonised regulation.[47]

The Finnish Financial Stability Authority

The Finnish Financial Stability Authority serves as Finland's national resolution authority to ensure the stability of the financial market and restructure credit institutions and investment firms experiencing financial difficulties. The Financial Stability Authority also acts as Finland's national authority responsible for the deposit guarantee scheme.[48]

The financing of Finland's Deposit Guarantee Fund began in summer 2015 and the statutory target level was reached by July 2024. The fund's target level is equivalent to 0.8% of the total amount of covered deposits, which corresponds to approximately €1.2 billion based on the information valid at the end of 2023. Following the deposit guarantee contributions collected in 2024, the size of the Deposit Guarantee Fund is approximately €1,223 million. The purpose of the Deposit Guarantee Fund is to secure the claims of deposit banks' depositors.

In accordance with the Single Resolution Mechanism regulation, the target level of the Single Resolution Fund (SRF) is at least 1% of the amount of covered deposits of credit institutions authorised in all participating member states. The SRF reached its planned target level by the end of 2023,[49] which meant that the Single Resolution Board (SRB) did not collect EU stability contributions from banks in 2024.[50]

BANKS OPERATING IN FINLAND

OVERVIEW OF THE FINNISH BANKING SECTOR AND KEY FIGURES IN 2024

In a bank-centric financial system such as Finland's, a strong banking sector ensures that financing can be channelled to support the real economy. The transmission of financing is important for economic activity at all times, but the importance of the banking sector's profitability, stability, capital position and ability to supply financing is particularly pronounced in economic downturns. A financially sound banking sector is able to carry risks and safeguard growth by ensuring the availability of financing even in weak economic situations. The banking sector also plays a key role in supplying financing when the economy is recovering from a downturn.

Finnish banks have been well placed to withstand the elevated risks associated with the weakening economic situation. The good profitability and capital position of Finnish banks protects them from an increase in the risks associated with funding, liquidity and customer creditworthiness.

The Finnish banking sector's non-performing loans and loan losses are among the lowest in Europe and the average quality of credits is good, which signals that customers are in a good place.[51]

Overall, the Finnish financial system has remained stable and able to function despite the economic shocks of recent years. The good reputation of Finnish banks is based on solid

45 https://rahanpesu.fi/documents/25235045/0/KRP__RAP__Vuosikertomus__2024__VALMIS.pdf/845f8d58-05e0-ed4e-a90e-0f5100f6a0f4/KRP__RAP__Vuosikertomus__2024__VALMIS.pdf?t=1742287229016 (in Finnish, includes a foreword in English)
46 https://www.finanssiala.fi/uutiset/pankkien-rahanpesuilmoitukset-kasvoivat-taas-2024/ (in Finnish)
47 https://www.finanssiala.fi/en/news/anti-money-laundering-needs-european-harmonisation-international-crime-cannot-be-curbed-with-national-legislation/
48 https://rvv.fi/en/mission-and-objectives

49 https://rvv.fi/-/yhteisen-kriisinratkaisurahaston-tavoitetaso-saavutettu?languageId=en_US
50 https://rvv.fi/en/srf-and-contributions
51 https://www.finanssivalvonta.fi/en/statistics/banks/Lending-bank-guarantees-past-due-nonperforming-assets/

capital positions and high-quality assets, which has ensured their access to international financial markets even in times of market disruptions.[52] The importance of this cannot be overstated.

Finnish banks' short-term liquidity is stronger than the European average. Banks' liquidity position is supported by the high quality of their liquid reserves. Over the year, banks' liquidity position was affected by the tighter monetary policy, which reduced the volume of central bank liquidity. The Finnish banking sector's deposits from the public have remained relatively stable, and in the past year, household and corporate deposits increased moderately. The financial markets have generally functioned well and banks have been able to refinance their funding and issue new bonds.[53]

Finnish banks are occasionally criticised for their dependency on short-term market funding. What is often ignored in this criticism is that short-term funding allows banks to react to changes in interest rates. Short-term funding also gives banks flexibility in their use of funds, allowing them to quickly adjust their balance sheets to reflect the changing market environment.[54]

Banks' lending capacity remained strong in 2024, but the weak economic situation and high interest rates kept the demand for loans low. At the end of 2024, loans to households stood at €141.0 billion (€141.4 billion in 2023) and loans to housing corporations at €45.1 billion (€44.0 billion in 2023).[55] The stock of loans to non-financial corporations (excluding housing corporations) granted by banks operating in Finland totalled €61.3 billion (€61.8 billion in 2023).[56]

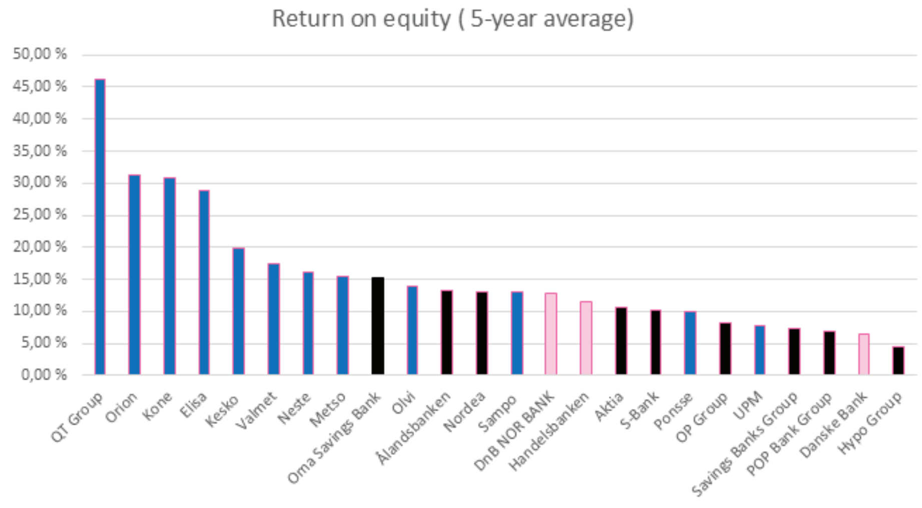
Despite the downturn, the debt service capacity of both households and corporations remained good throughout the year, and the ratio of non-performing loans (NPL) remained relatively level. At the end of 2024, the NPL ratio of Finnish banks was 1.8% in household loans (1.6% in 2023) and 1.7% in corporate loans (1.6% in 2023).

The role of net interest income in banks' results remained significant, although the growth of the net interest income petered out towards the end of the year as interest rates started falling. In 2024, net interest income was the most important income item for Finnish banks: it accounted for over 60% of the profits. Finnish banks' total net interest income increased by over 3% to approximately €12.2 billion (€11.9 billion in 2023).[57]

The banking sector had a very good year in terms of business results. According to the FIN-FSA[58] , the banking sector's profit increased by about 8% from the previous year, totalling about €9.9 billion (€9.2 billion in 2023). The ratio of net interest income to interest-bearing balance sheet items, i.e. the interest rate margin, rose to about 1.68% (1.63% in 2023).

Commission income is another major source of income in the banking sector. According to the FIN-FSA, commission income remained level in 2024 and made up just over one fifth of the profits. Commission income remained level also in euros. The majority of commission income comes from asset management and other items linked to securities, such as fees from investment funds. Payment services are a major and stable source of commission income, which levels out and compensates for the effect fluctuation in items linked to securities has on net commission income.
The Finnish banking sector's profitability remained above the European average. The banking sector's return on equity (ROE) stood unchanged at 13.9% at the end of December (13.9% in 2023).

52 https://www.bofbulletin.fi/en/2023/1/rise-in-interest-rates-is-testing-the-resilience-of-borrowers-investors-and-the-financial-system/
53 https://publications.bof.fi/bitstream/handle/10024/53958/Valvottavien-taloudellinen-tila-ja-riskit-kev%c3%a4t-2025.pdf?sequence=1&isAllowed=y (in Finnish)
54 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2024/finnish-banks-liquidity-position-stable-but-vulnerable-to-severe-and-long-disruptions/
55 https://www.suomenpankki.fi/en/statistics/data-and-charts/mfi-balance-sheet/charts/rati-kuviot-en/Lainat_asuntoyhteisoille_chrt_en/
56 https://www.suomenpankki.fi/en/statistics/statistical-news/mfi-balance-sheet/2024/interest-rates-on-new-consumer-credit-lower/?epslanguage=en
57 https://publications.bof.fi/bitstream/handle/10024/53958/Valvottavien-taloudellinen-tila-ja-riskit-kev%c3%a4t-2025.pdf?sequence=1&isAllowed=y (in Finnish)
58 Ibid



Source: Financial statements, Investing.com

Figure 5: Return on equity, 5-year average (2020–2024)

A comparison of the profitability of Finnish banks and other sectors reveals that the banking sector's profitability does not stand out as particularly great, even though it is fairly commonly said to be. There are also large differences between banks.

The banking sector's cost-to-income ratio (CIR) decreased slightly from the previous year-end, totalling 44.6% (44.1% in 2023). In general, large banks perform better in the CIR comparison.

The Finnish banking sector's capital adequacy has also remained strong and above the European average. The Finnish banking sector's common equity tier 1 (CET1) capital ratio was 18.2% (18.3% in 2023) and total capital ratio 22.2% (22.1%). In the EU, banks' average CET1 capital ratio was 16.6% and total capital ratio 20.1% at the end of September 2024.

Banks have prepared for credit losses by setting additional discretionary allowances for credit losses. Additional allowances made during the pandemic have been reallocated to cover increased credit risks.

The Finnish banking sector's own funds exceeded the capital requirements by a wide margin. In 2024, however, tighter macroprudential buffer requirements and larger risk-weighted assets significantly weakened the surplus of own funds relative to the capital adequacy ratio and leverage ratio requirements. The sector's surplus of own funds exceeded the total capital requirement by €12.0 billion at year-end 2024 (€16.1 billion in 2023) and made up about 4.7% of risk-weighted assets (6.8% in 2023).

In contrast, the banking sector's leverage ratio rose to 6.3% in 2024 (6.1% in 2023) mostly due to growth in CET1 capital. The leverage ratio of Finnish banks is now slightly above the European average, which stood almost unchanged at 5.8% at the end of September.

Thanks to their strong capital adequacy, Finnish banks have been able to offer their customers flexibility in loan servicing. Loan repayment reliefs enable customers experiencing financial difficulties to tide over temporary payment difficulties. So far, the effects of weak economic growth, high inflation and elevated interest rates on the debt service capacity of both households and corporations have remained moderate. At the end of 2024, the share of corporate forbearance loans was 2.2% (1.6% in 2023) and household forbearance loans 1.9% (2.0% in 2023). Corporate forbearance loans increased especially in corporate loans granted to Finland and Sweden.

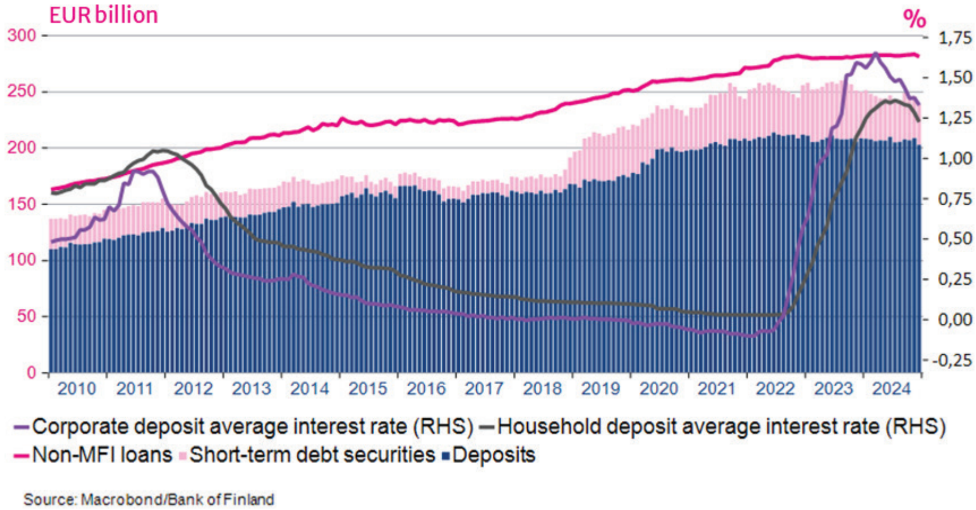


Figure 6: Credit institutions' funding and the average interest rates of corporate and household deposits

The liquidity and financial positions of banks have remained good both in Finland and elsewhere in Europe. Current accounts and other accounts with low rates of interest continue to hold a large amount of deposits, which reflects on banks' funding costs. At the end of December 2024, Finnish households' deposit stock totalled €110.2 billion.[59] Overnight deposits accounted for €67.2 billion, deposits with an agreed maturity for €15.0 billion and investment deposits for €28.0 billion of the total deposit stock. As the level of market interest rates has risen, the interest rate differentials between different types of deposit accounts have widened.

The Finnish banking sector's liquidity remained strong in 2024. The average liquidity coverage ratio (LCR) stood at 173% at the end of 2024 (183% in 2023). The LCR was well above the 100% limit set in regulation and higher than the EU average (EBA 06/2024: 167%).[60] The average LCR of Finnish banks directly supervised by the FIN-FSA stood at 228% at the end of the year (240% in 2023). The quality of Finnish banks' LCR reserves was good overall: 96% of the reserves consisted of the most liquid assets, i.e. level 1 assets.

The binding net stable funding ratio (NSFR) requirement became applicable at the end of June 2021. Its purpose is to reduce banks' overreliance on short-term wholesale funding and to limit the degree of maturity mismatch between banks' assets and liabilities. The NSRF requires that banks' available stable funding over a one-year horizon is at least as large as the required stable funding over the same horizon in both normal and stressed conditions. The Finnish banking sector's average NSFR stood at 126% at the end of December 2024 (122% in 2023), which is well above the 100% minimum requirement and just below the EU average (EBA 06/2023: 128%).

Russia's war of aggression has had only minor direct effects on banks' operations. The Finnish banking sector has not had significant direct exposures to Russia, and these were further decreased when the war broke out. According to the FIN-FSA, direct exposures to Russia amounted to roughly €25 million at the end of 2023. The effects of the war on banks' corporate credit risk position mainly arose from certain sectors, particularly as a result of the price hikes in energy and raw materials.

The war has highlighted the risk of cyber threats. Although cyber threats and information influencing were a hot topic in late 2024, the situation has remained stable. Individual denial-of-service attacks have taken

59 https://www.suomenpankki.fi/en/statistics/statistical-news/mfi-balance-sheet/2024/interest-rates-on-new-consumer-credit-lower/?epslanguage=en
60 https://www.eba.europa.eu/publications-and-media/press-releases/eu-banks-liquidity-coverage-ratio-increased-june-2024-underpinned-growth-banks-holdings-liquid

place, but they have had little or no effect on the running of banks' payment systems.[61]

The financial sector is well-prepared especially for short-term disruptions, and the sector's preparedness for cyber threats and attacks is at a high level.[62] Generally speaking, the banking sector has proven its crisis resilience and handled its tasks extremely well and reliably during both the pandemic and the war.

PARTICULAR FEATURES OF THE FINNISH BANKING SECTOR

One of the particular features of the Finnish banking sector is its concentration. The three largest banks (OP Financial Group, Nordea and Danske Bank) granted 67.4% (67.3% in 2023) of all loans to non-financial institutions in Finland and held 77.7% (76.8% in 2023) of all deposits.

In addition to its concentrated nature, the Finnish banking sector is closely interconnected with the other Nordic countries through ownership and investments. It also relies significantly on market-based funding. Other typical features include the significant share that housing loans have of all lending, the small amount of non-performing assets and the good level of profitability by European comparison.

Overall, international credit rating agencies consider banks' operating environment to be stable, partially thanks to their good capital levels and profitability. Finnish banks' assets consist mainly of low-risk mortgage-backed claims and corporate loans. The sector has a strong loss-absorbing capacity, as is also proved by the supervisory stress tests.[63]

61 https://www.finanssiala.fi/kolumni/pankkien-osoittelu-ei-auta-kyberhyokkaysten-torjuntaan-tarvitaan-pankkien-ja-viranomaisten-yhteistyota/ (in Finnish)

62 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2022/enhanced-monitoring-of-situation-in-financial-sector-sanctions-enforcement-and-cyber-risk-preparedness/

63 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/results-of-finnish-banks-stress-tests--banks-resilience-good-but-a-significant-weakening-of-the-operating-environment-would-erode-buffers/

Being part of the euro area and the ECB's banking supervision increases the predictability of the Finnish banking sector's operating environment and promotes fair competitive conditions with our European counterparties. This ensures that banks have good preconditions to grow and develop their services, which in turn increases stability in the financial market.

GREEN FINANCE

The financial markets in Finland function well in general, and eligible projects receive funding on acceptable terms. For example, wind power projects carried out on project funding do not, as a rule, have problems accessing private funding.[64] In fact, the problem is partly reversed – finance providers have problems finding green transition projects to fund.

Banks can steer society in a more sustainable direction. The Finnish financial sector's role in this is discussed in more detail in the final report of the national working group on financing the green transition, published in December 2022. The final report highlights the role the financial markets play in promoting the green transition.[65]

The report brings forward that private investments in the green transition will be primarily financed from private sources. Public financial instruments will complement and leverage market financing, in particular to share the risks associated with developing and marketing new solutions.

An example of a public financial instrument is the European Investment Fund's (EIF) loan guarantee scheme, which seeks to boost clean technology and energy efficiency investments in small and medium-sized enterprises (SMEs), households and housing companies. The EIF has finalised agreements with eight leading banks and financial institutions in Finland to assist SMEs, small mid-caps and housing companies. The agreements will facilitate around €1 billion

64 https://julkaisut.valtioneuvosto.fi/handle/10024/164654

65 https://www.finanssiala.fi/en/news/banks-can-steer-society-in-a-more-sustainable-direction-final-report-on-financing-the-green-transition/

in lending to invest in projects that promote Finland's climate objectives and environmental sustainability.[66]

BANKING GROUP EMPLOYEES AND OFFICES

According to the Bank of Finland, there were 177 credit institutions operating in Finland at the end of 2024 if group structures are ignored (185 in 2023). This is 8 fewer than at the end of 2023, mainly due to mergers within banking groups. Credit institutions include deposit banks and other credit institutions that do not take deposits, such as finance houses, credit card companies, mortgage credit banks and Municipality Finance Plc.

Most Finnish credit institutions belong in a banking group or amalgamation. Calculated by group (foreign branches excluded), there were 12 Finnish banking groups or amalgamations at the end of 2024.

The Finnish banking sector continues to have an important role as an employer. Finnish banking groups and foreign deposit-taking banks' Finnish branches employed a total of 21,622 people at the end of 2024. This is 517 employees more than in the previous year.

The number of bank offices fell. At the end of 2024, Finnish banking groups had 735 offices in Finland, which is 18 fewer than the year before.

In 2024, the largest Finnish banking group in terms of market share was OP Financial Group, which commanded a market share of 34–41% in deposits, housing loans and corporate loans alike (34–39% in 2023). The second largest banking group was Nordea Group with market shares of 24–30% (24–30% in 2023).

Credit institutions' market shares have not changed much in recent years. In granted loans, changes were around two percentage points at most in 2024, with Handelsbanken losing 2.2% in market shares. Handelsbanken has been selling its operations to other banks in recent years as it is exiting the Finnish market. In deposits, changes were very similar: Handelsbanken lost 2.5 percentage points in market shares.

66 https://tem.fi/en/-/1410903/finnish-smes-and-housing-companies-to-benefit-from-1-billion-in-financing-for-sustainable-investments-through-eif-partnership-with-eight-banks

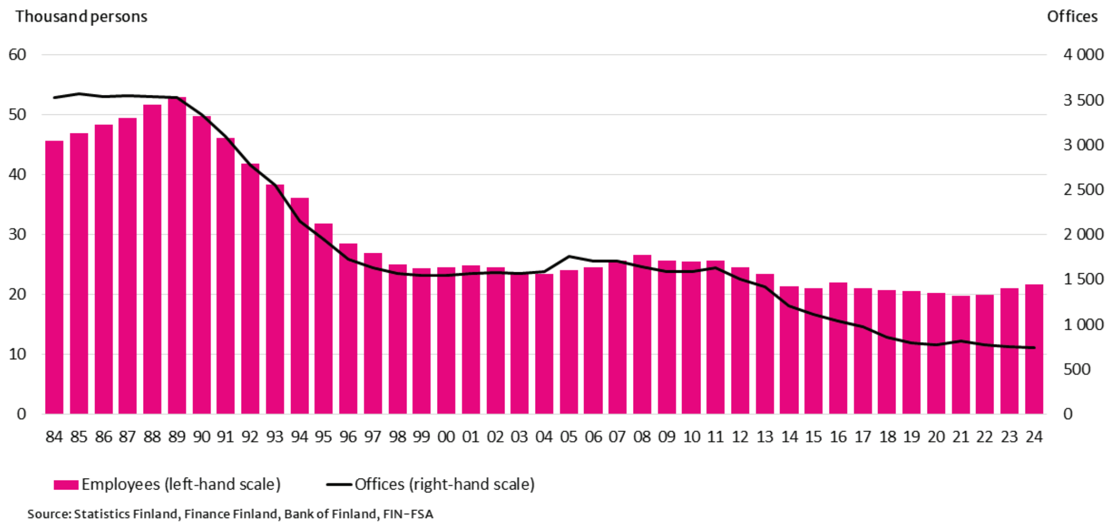


Figure 7: Bank employees and offices

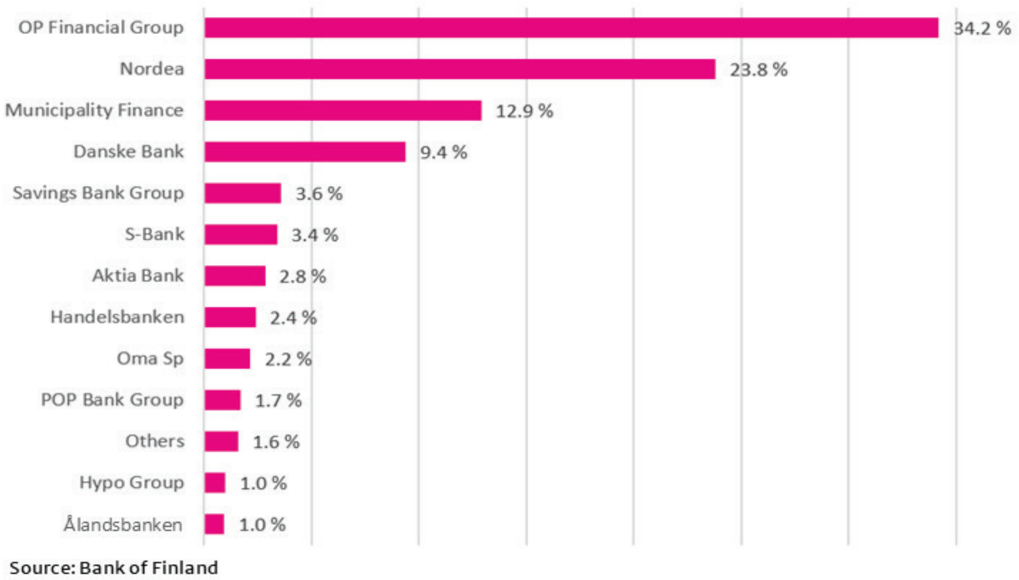


Figure 8: Credit institutions' non-MFI loans in Finland, market shares on 31 Dec 2024

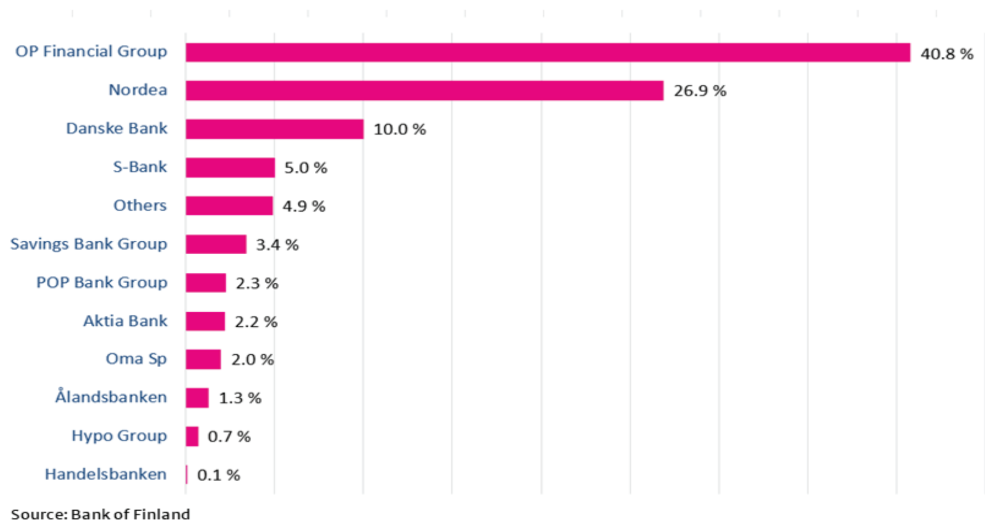


Figure 9: Credit institutions' non-MFI deposits in Finland, market shares on 31 Dec 2024

IN CONCLUSION

Banks have played a central role in economic development and stability during the coronavirus pandemic and Russia's war of aggression. In terms of their capital position, Finnish banks have performed well. Retained earnings, additional capital buffers and a good liquidity position improve the risk position and risk tolerance of Finnish banks.

Thanks to its sound basis, the sector can offer customers flexibility in loan payments and provide other forms of support in the face of crises, thus directly benefiting the real economy. An efficient and flexible allocation of financing and a stable financial system promote economic growth and welfare. The importance of this cannot be overstated.

Banks' ability to grant credits and offer companies and households flexibility in their loan servicing in the face of temporary difficulties must be ensured also in the future. This is especially important in Finland and elsewhere in Europe, where the financial system is bank-centric.

The time of low interest rates is over for now. Although banks' financial development and performance are strong, banks are not short of challenges. Their operating environments and business requirements, including regulation, are in constant change.

The Finnish banking sector's profitability and return on equity is on a good level by European comparison. The cost-to-income ratio that measures cost-effectiveness is better than the European average. It is worth noting that Finnish banks have had a relatively low return on equity compared to many other domestic sectors for several years. In recent years, however, the growth in net interest income has levelled out the situation markedly.

In the future, it is particularly important that new fees, new regulation and other measures that put a strain on banks' profitability are justified. It is vital to guarantee such conditions for banks that allow them to conduct profitable business and encourage them to develop new services and functions.

Banks and the rest of the financial sector are starting to see the effects of climate change and its mitigation. Transitioning to a low-carbon economy requires sizeable investments, which in turn require funding. Banks have a significant role in financing the transition. Banks are also integrating sustainability even more tightly into their investment and credit granting processes.

Well-functioning banks and financial markets that price risks correctly are a prerequisite for the cost-effective implementation of the carbon neutral transition. Banks have a key role in offering companies sufficient funding for making energy efficient investments in low-carbon sectors and promoting green innovations in carbon-intensive industries.

FINANCE
FINLAND

FINANCE
FINLAND

FINANSSIALA RY
Itämerenkatu 11–13, 00180 Helsinki
firstname. lastname@financefinland.fi
www.finanssiala.fi